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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 2540
INFO RUEHBJ/AMEMBASSY BEIJING 0375
RUEHBO/AMEMBASSY BOGOTA 7932
RUEHBR/AMEMBASSY BRASILIA 6097
RUEHLP/AMEMBASSY LA PAZ FEB LIMA 1130
RUEHMO/AMEMBASSY MOSCOW 0320
RUEHSP/AMEMBASSY PORT OF SPAIN 3651
RUEHQ/AMEMBASSY QUITO 2944
RUEHGP/AMEMBASSY SINGAPORE 0027
RHEBAAA/DEPT OF ENERGY
RUCPDOC/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RUMIAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L CARACAS 000149

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD, DOE/EIA FOR MCLINE
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
COMMERCE FOR 4431/MAC/WH/JLAO

E.O. 12958: DECL: 01/29/2019

TAGS: EPET EINV VE

SUBJECT: RUMORS OF A RUSSIAN FAVERED BID IN CARABOBO AND
INCREASING SINOVENSA PRODUCTION

REF: A. (A) CARACAS 00104
1B. (B) CARACAS 00106
1C. (C) 08 CARACAS 1540
1D. (D) 08 CARACAS 1712

Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b)
and (d).

11. (C) SUMMARY: A well-connected industry source asserts
that PDVSA has offered to form a mixed company with a newly
formed Russian consortium for direct award of one of the
Carabobo bid round blocks. The consortium was reportedly not
required to pay for the data pack (for \$2 million) despite
public reports that it did. PDVSA is also reported to be
taking advantage of the shut-in of the PetroMonagas field
(due to OPEC quota cuts) to upgrade Sinovensa (CNPC) crude at
the PetroMonagas upgrader. END SUMMARY.

12. (C) EconCon and Petroleum Attache met on January 28 with a
well-connected petroleum industry expert who shared insights
into current Russian and Chinese activities of interest.
According to this source, PDVSA has offered to form a mixed
company with a newly formed Russian consortium for direct
award of one of the Carabobo bid round fields. He also
asserted that the consortium (Per press reports the
consortium includes: Gazprom, Lukoil, Rosneft, TNK-BP, and
Surgutneftegas) was not required to purchase the data pack
for the bid round (for \$2 million) and is also being given
special access to the data room. The five companies will
share 40% of the proposed mixed company (with PDVSA receiving
majority ownership of 60%). According to the petroleum
industry expert, the Russians believe the Venezuelans do not
understand the complexity of financing these new projects and
that negotiations to form a mixed company agreement will
break-down resulting in further delays.

13. (C) The industry expert also confirmed that, despite the
fact that the PetroMonagas (Cerro Negro) field production has
been shut-in, PDVSA continues to operate the upgrader,
processing Sinovensa crude. Sinovensa is a joint venture
between PDVSA and the Chinese National Petroleum Corporation
(CNPC) which was originally created to provide China with
Venezuela's patented boiler fuel Orimulsion. Since PDVSA's

decision to cease production of Orimulsion, Sinovensa has continued to produce extra heavy crude which is then mixed with lighter oil and sold as a crude blend. PDVSA announced to the press in May 2008 that Sinovensa would boost output from 65,000 to 110,000 b/d within three months. According to our source, Sinovensa wishes to increase its production to 300,000 b/d which would be impossible without access to an upgrader. He also speculated that PDVSA might be laying the groundwork to bring CNPC into PetroMonagas and to remove the existing partner, BP. He added that it is possible that BP will not be compensated for the continued upgrader operations as there is no tolling facility to monitor how much Sinovensa crude is being pumped through the pipeline to the PetroMonagas upgrader. Finally, our source commented that a CNPC official had told him that CNPC has a directive to secure reserves, and that the company does not care whether it or PDVSA is responsible for operating.

¶4. (C) COMMENT: As the Carabobo Round progresses it appears PDVSA's political interest in seeing Russian and Chinese companies succeed is tempered only by its need to ensure that the project succeeds. There are indications that other companies that did not purchase the bid packet are also quietly being considered as PDVSA seeks to engineer favored bidder consortia.

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